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**FISCAL IMPACT STATEMENT**

**LS 7849**

**BILL NUMBER: SB 524**

**NOTE PREPARED: Jan 17, 2003**

**BILL AMENDED:**

**SUBJECT:** Sales Tax on Vending Machine Items.

**FIRST AUTHOR:** Sen. Weatherwax

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill provides that certain exemptions from the state Gross Retail Tax, except for an exemption for the sale of newspapers, do not apply to wholesale sales of tangible personal property to vending machine operators for resale through a vending machine. The bill provides that in such a transaction, the wholesaler is not considered a retail merchant making a retail transaction for purposes of collecting and remitting the state Gross Retail Tax. The bill provides that the vending machine operator that purchases the tangible personal property is responsible for remitting the state Gross Retail Tax due on the transaction. It provides that the state Gross Retail Tax is imposed on the amount of the gross retail income received by the wholesaler in the transaction multiplied by 120%. The bill provides that a wholesaler must provide periodic reports on sales to vending machine operators to the Department of State Revenue.

It requires the Department of State Revenue to submit a report to the Governor, the Budget Director, and the Legislative Council not later than March 1, 2009, that compares:

- (1) the total amount of state Gross Retail and Use Taxes remitted by vending machine operators during the calendar year ending December 31, 2003; and
- (2) the average of the total annual amounts of state Gross Retail and Use Taxes remitted by vending machine operators during the five calendar years beginning January 1, 2004, and ending December 31, 2008.

The bill provides that the new reporting requirements and new method of calculating the state Gross Retail and Use Tax liability of vending machine operators expire July 1, 2009, if the amount of taxes collected during the calendar year ending December 31, 2003, exceeds the average annual amount collected during the five year period ending December 31, 2008.

**Effective Date:** Upon passage; January 1, 2004.

**Explanation of State Expenditures:** *Department of State Revenue:* This bill will require the Department of State Revenue to adopt rules and develop procedures to accommodate the bill's provisions. The Department will be required to identify the total Sales Tax remittances by vending machine operators during CY 2003 using the current method of calculating the Tax. Additionally, the Department will be required to monitor and tally the vending machine operators' Sales Tax remittances based on the new method of calculating their Sales Tax liability in CY 2004 through CY 2008.

The required modifications in the Department's administration of the Sales Tax are expected to increase the Department's administrative burden; however, it is presumed that the costs could be absorbed using current staff and resources.

**Explanation of State Revenues:** This bill will change the manner in which the Sales Tax is collected on sales made through vending machines. (The bill does affect the sale of newspapers or cigarettes.) Under current law, the Sales Tax is assessed on vending machine sales, as it is on other sales, by multiplying the *retail* price of the good sold by 6%. This bill modifies this procedure so that a vending machine operator's Sales Tax liability would be calculated by multiplying the *wholesale* price of the good sold by 120%. The product would then be multiplied by the state's 6% Sales Tax rate, so that the Sales Tax is assessed on 120% of the wholesale price of the good sold.

Based on the assumption that the retailer markup of the price of goods sold through vending machines is greater than 20%, it is presumed that this provision will reduce state Sales Tax revenue.

Based on adjusted state and federal data, it is estimated that the Sales Tax applied to the retail price of goods sold through vending machines will generate approximately \$7.4 M in CY 2004. The revenue generated under the wholesale calculation proposed in the bill is unknown.

The bill specifies that if the Department of State Revenue determines the Sales Tax collections made in CY 2003 using the current method of Sales Tax calculation is *greater than* the average yearly amount collected from CY 2004-CY 2008 using the method proposed in the bill, the new method of calculating the Sales Tax will expire on July 1, 2009. If the new method provides greater Sales Tax revenue than what was collected under amount collected using the current procedure in CY 2003, the new wholesale method would continue indefinitely.

Revenue from the state's 6% Sales Tax revenue is deposited in the Property Tax Replacement Fund (50%), the State General Fund (49.192%), the Public Mass Transportation Fund (0.635%), the Commuter Rail Service Fund (0.14%), and the Industrial Rail Service Loan Fund (0.033%).

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue; Governor; Budget Director; Legislative Services.

**Local Agencies Affected:**

**Information Sources:**

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